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INFO RUEHB/E/AMEMBASSY BELIZE 1243  
RUEHWN/AMEMBASSY BRIDGETOWN 5382  
RUEHG/AMEMBASSY GEORGETOWN 3509  
RUEHK/AMEMBASSY KINGSTON 8321  
RUEHP/AMEMBASSY PORT AU PRINCE 3352  
RUEHSP/AMEMBASSY PORT OF SPAIN 4514  
RUEHDG/AMEMBASSY SANTO DOMINGO 2630  
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STATE FOR USTR

E.O. 12958: N/A

TAGS: ETRD PREL BF

SUBJECT: BAHAMAS BACKGROUND FOR CARICOM-USTR MEETING

¶1. The Bahamas will be represented at CARICOM's April 12 meeting with USTR Portman by Foreign Minister Fred Mitchell and Leonard Archer, the Bahamian Ambassador to CARICOM. Background material on The Bahamas and Minister Mitchell follows.

Economy is Small but Developed

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¶2. The Bahamas is a small economy highly dependent on tourism and financial services for its growth. Tourism, originating predominantly from the United States, accounts for over fifty percent of gross domestic product. Financial Services, the second-largest sector, contributes fifteen percent of GDP -- the more than \$280 billion in foreign assets managed in The Bahamas makes it one of the largest offshore financial centers in the Caribbean. Per capita GDP is estimated at \$16,000, among the highest in the region.

¶3. The Bahamas has a long track record of prudent macroeconomic management and financial stability. The Bahamian dollar has been pegged to the U.S. dollar at par since 1973. Inflation has remained low, slightly below inflation in the United States. With no income tax, the relatively low tax burden is heavily dependent on customs tariffs, which account for 65 percent of tax revenues. Fiscal deficits and public debt are moderate, averaging slightly over 2.0 percent and 30 percent of GDP respectively.

Trade Heavily Concentrated with U.S.

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¶4. The Bahamas imported approximately \$1.3 billion worth of U.S. goods in 2004. With few domestic resources and little industry, it imports nearly all of its food and manufactured goods. American goods and services tend to be favored by Bahamians because of cultural similarities and heavy exposure to domestic American advertising from Florida. In addition, the tourist industry prefers to purchase goods with which its clientele, most of whom are Americans, is familiar. Roughly three-quarters of The Bahamas' two-way trade is with the U.S.

Tariff Dependence Blocks Liberalization

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¶5. The Bahamas' average tariff rate of over thirty percent is among the highest in the world and almost doubles that of neighboring Caribbean countries. The real impact of these

tariffs is not to protect domestic industry, of which there is little, but rather is to raise revenue for the government.

Since The Bahamas must import nearly everything it consumes, tariffs in effect function as an across the board sales tax. The reduction and eventual removal of these tariffs through trade liberalization initiatives would force a fundamental change in the way the Bahamian government collects its revenues.

¶ 16. The current government fears that one revenue-raising option, the introduction of an income tax, would be political suicide in The Bahamas, which takes great pride in being "tax-free." Another option, a value added tax, is opposed by merchants, who do not wish to incur the costs and inconvenience associated with collecting it. Most Bahamians believe the country will benefit little from trade liberalization due to its small export base, making nearly any disruption to the revenue system not worth the cost.

¶ 17. The government is interested in becoming a member of the World Trade Organization, mainly for a seat at the table when services issues are discussed. It is less enthusiastic about the Free Trade Area of the Americas although it has participated in the process. After several months of contentious debate in 2005, however, the government has stated that it will not join CARICOM's Caribbean Single Market and Economy (CSME), at least for the foreseeable future. Foreign Minister Mitchell was the government's point man on CSME, but his arguments for maintaining CARICOM unity failed to overcome the public's overriding fears about the free movement of people, monetary union, and the Caribbean Court of Justice, leading the government to suspend consideration of The Bahamas' CSME participation.

Minister Mitchell: Capable but New to Trade

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¶ 18. Fred Mitchell has been Foreign Minister of The Bahamas since May 2002. He is one of the government's sharpest and most active ministers. Mitchell was chairman of CARICOM's foreign minister group in 2005-06 and hosted Secretary Rice in Nassau for a meeting with the CARICOM foreign ministers in March 2006. Minister Mitchell received responsibility for trade negotiations in February 2006 after the Prime Minister reshuffled his Cabinet and adjusted portfolios.

¶ 19. Mitchell holds a Masters degree in Public Administration from the Harvard School of Government and an undergraduate degree in English from Antioch University in Ohio, as well as a law degree from the University of Buckingham in England. Prior to his political career he worked as a journalist and a lawyer. He is single with no children.

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